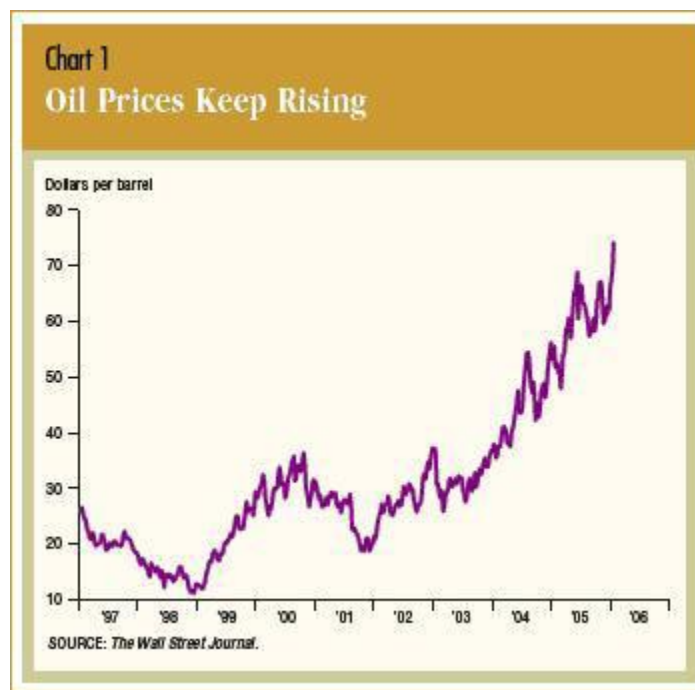


## Lebanon in the mid of a booming market

### I- Lebanon's real estate market in 2005 mid 2006:

Oil prices in 2005 till mid 2006 have followed an upward trend inducing excess capital especially in the gulf region where oil and gas revenues are now to the tune of \$320 billion per annum.

Arab and gulf investors targeted the real estate sector as a safe haven for investment especially after the dramatic losses incurred at the gulf stock market.



With the UAE leading the real estate investment ratings with a total of \$300billion in 2005, the Kingdom of Saudi Arabia is leading investors in developing cities and gigantic infrastructure developments like King Abdallah city and prince Abdul Aziz bin Musaaed city.

In the mid of this real estate boom in the region, will Lebanon rise and compete as a major player in the market?

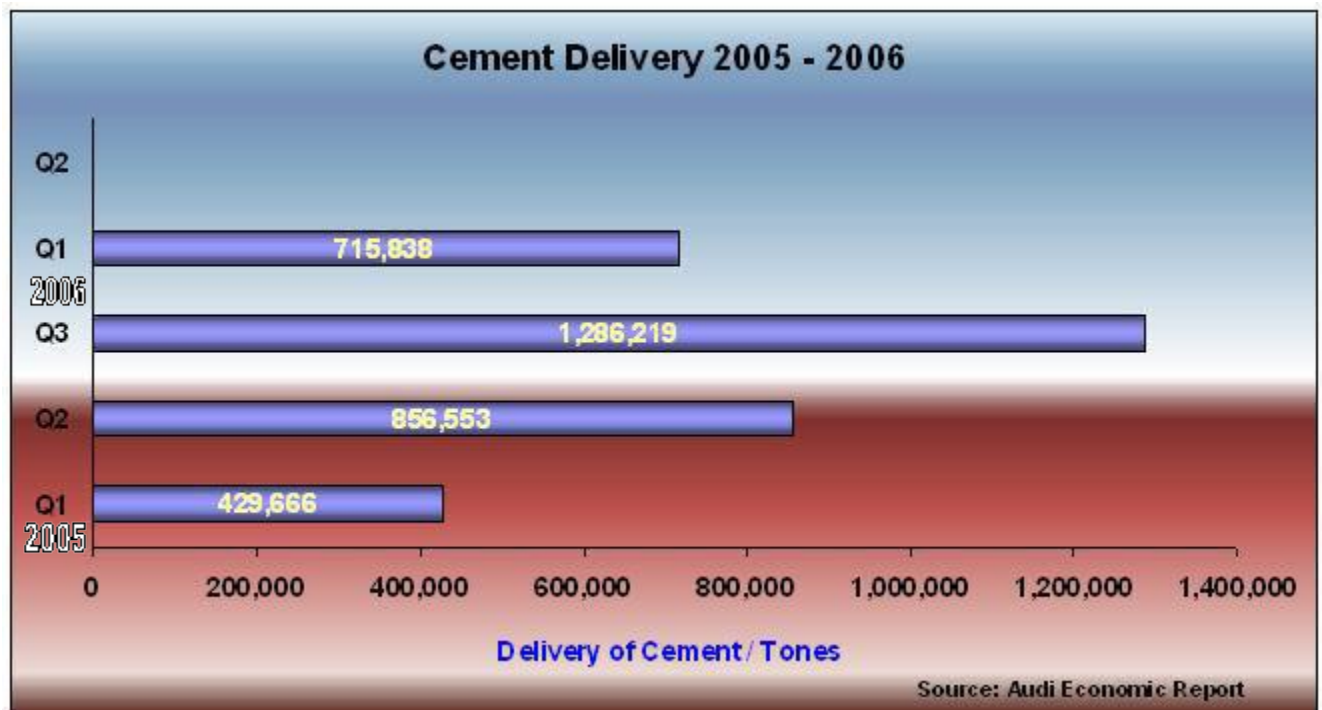
Lebanon has always been a major competitor for Arab investments, year 2005 was the most dramatic year in this country's modern history, 14 assassinations and attempts, the loss of P.M Harriri; all added a dark cloud to the investment atmosphere.

Yet driven by an influx of overseas investment and a profound optimism, the real estate sector in Lebanon is expected to continue its uptrend growth.

Sales of property to Arab investors in the Beirut downtown district in 2005 alone amounted to approximately 1 million square meters. Moreover, the value excluding transactions accounting for over 700,000 square meters that were still pending at year-end, was estimated at US\$ 1.5 billion. In addition, Arab investors bought more than 2 million square meters in Lebanon in 2005, nationwide, compared to 1.7 million square meters in 2004 and 700,000 square meters in 2003.

The profits enjoyed by Solidere, the company established to rebuild central Beirut after the civil war, testify to the boom in the real estate sector. The company recorded a net profit of \$108.5 m in 2005; double that of the previous year.

So far, the majority of investment has been concentrated on high-end tourist, residential, and office spaces with price tags well out of reach for most Lebanese, prompting some to question whether the real-estate boom will eventually trickle outside of the BCD and lead to the development of more affordable housing options.



From 2004 to 2005, Beirut accounted for 37 percent of the total value of land sales transactions, with 27 percent concentrated in Baabda, Aley, and Chouf, and 14 percent in Metn.

## **II- The land restriction:**

While most of the Arab countries enjoy Large areas for land development in metropolitan regions, like in Egypt the total area of Cairo is 300 Km<sup>2</sup>, and the capital of Saudi Arabia; Riyadh has an area of 1554 km<sup>2</sup>. Also the UAE has potential undeveloped urban areas and a newly metropolitan sector in the seven Emirates especially in Dubai, Abu Dhabi and Sharjah.

Lebanon has a limited land purchase opportunities mainly in Beirut and the suburbs, since the area of Beirut is slightly above 18 km<sup>2</sup> and Solidere of almost 2 km<sup>2</sup>.

Solidere holds very solid pricing strategy with total property sales of 1.1 billion dollars in the first quarter of 2006. Prices outside Solidere in Beirut had an uptrend of 10-35% particularly in the natural expansion areas around Beirut BCD.

Therefore the chance of buying a prime land in Beirut during 2005 needs extremely more efforts than any other Arab capital.

## **III- Governments' role in real estate markets:**

Most Gulf countries enjoy a direct public involvement in the real estate investment market regarding its development and promotion.

Abu Dhabi authorities established financial development entities such as Abu Dhabi Investment Authorities (ADIA) and Abu Dhabi Investment House (ADIH) with capacities to invest Billions of dollars in the region and world wide.

Moreover Dubai government's audacious growth plans and the favourable regulatory regime put in place have been key drivers of the UAE's construction boom, while in Qatar the 2006 Doha Asian Games have provided much of the impetus for the sector's growth.

Kuwait has also seen a significant expansion in the sector, thanks to major oil & gas projects as well as by virtue of its position as a gateway to Iraq.

Where as in Lebanon the government is far behind having little contribution to the real estate market which depends greatly on the private sector:

Lebanese citizens and Arab investors play the major role as the market is saturated with modest real estate acquisitions. In addition to recent huge projects including several international hotels; examples of these projects are:

- ❖ A 27-story, \$150 million tower dubbed "La Residence by Ivana Trump" being developed by Dubai-based DAMAC, which is said to be moving ahead.
- ❖ The \$600 million Beirut Gate development of eight high-rise towers overseen by Abu Dhabi Investment House, also in the United Arab Emirates is expected to break ground soon.
  
- ❖ Also planned are three residential projects by Dubai Islamic Bank's Deyar Development, including four high-rise towers in Beirut valued at \$65 million.

The government needs to update and upgrade relevant real estate laws and regulations to facilitate and promote investments and capital funding.

Regulations like the new foreign acquisition of property law No.296 dated April 3, 2001 and which amended the 1969 law No.11614 have eased legal limits on foreign ownership of property to encourage investments in industry and tourism. It also abolished discrimination for property ownership between Arab and foreign nationals, and lowered real estate registration fees from six percent for Lebanese and 16 percent for foreigners to five percent for both Lebanese and foreign investors.

Recently the government of Lebanon issued a new building law No. 646/2004 followed by a decree No 15874 Dated 12-12-2005 to clarify the application and their usage. While in Dubai you can have a building permit of about 72 stories and up to 333 meters high on a 900 m2 plot like Rose Rotana, By Bonyan International, The new Lebanese law gave minor changes regarding exploitation factors and building areas. Finally The new law organized the responsibilities within local authorities regarding permit issuance and conflict resolutions.



Source: Order of Eng. & Arch., Beirut-Lebanon

#### **IV- Conclusion and recommendations:**

The real estate sector in Lebanon remains a lucrative source for investment despite political and economical turmoil.

Lebanon did not enjoy a stable economical agenda in 2005 and mid 2006 instead dramatic events have added to the internal political turmoil. While most Arab countries have enjoyed the inflow of inter Arab investments and higher oil price, Lebanon was crawling to survive.

The Lebanese private sector has succeeded in stabilizing the financial atmosphere thru a solid banking system and wise central bank policy makers. Bank assets in Lebanon are more than three times the GDP of the country, giving Lebanon one of the highest such ratio in the world. The real estate sector could not be compared to other sectors, it is not a commercial commodity to promote neither to export, and the real estate industry in Lebanon is directly proportional to the political stability and the general attitude of the legislative authorities.

The political system in that period had little effect on the real estate development, for how long will this be true?

Strategy makers are afraid that the political environment will have a direct effect on investor's ability to develop new projects. Government officials and politicians should know that Lebanon is capable to stand again for more inconvenience and political arguments. The current political dispute in Lebanon reflects the freedom and democracy of the system which is highly valued by major investors.

Lebanese agree that there is an internal conflict on strategic political options for the small country within the regional Middle East conflict, without the agreement on major options and national fundamentals and a serious review according to the continues regional changes the renovation and upgrading of the administrative system is not expected.

It is time to renovate the administrative public sector with professionals instead of politicians despite of the political status.

This is the challenge which should be considered prior to any incentives. Lebanon is oversaturated with Hi caliber executives and human resources; there is no excuse for officials not to assign key positions to qualified professionals.

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